Annual report 1971

For the year ended December 31, 1971

msn

MSN INDUSTRIES LTD.

Annual report 1971
for the year ended December 31, 1971

Directors

W. A. Arbuckle, *Montreal*
G. R. Duncan, *Montreal*
W. R. Eakin, *Montreal*
K. J. Fowler, *Huntsville, Ala.*
A. S. Gordon, *Montreal*
N. B. Ivory, *Montreal*
C. J. Jackson, *Montreal*

Officers

C. J. Jackson, *President*
G. R. Duncan, *Vice-President*
J. D. Fletcher, *Secretary*

Subsidiaries

Mussens Equipment Ltd.
Mussens Service (1969) Limited
Colborne Acceptance Limited
Ontario Equipment Limited
Hovermarine Holdings Limited

MSN INDUSTRIES LTD.
1100 Norman St., Lachine, P.Q.

To the shareholders

Profit
Consolidated net income of your Company after taxes and including extraordinary items for the year under review was $928,562, an increase of 56% over the prior year's comparable figure. Income before extraordinary items was $580,059, an increase of 16% over 1970. On the average number of shares outstanding during the year, earnings before extraordinary items were $1.10 per share in 1971 compared to $0.99 in 1970, and net income per share rose to $1.76 from $1.17.

Capital Stock
During the year employee stock options covering 25,000 shares were exercised for $100,000. In addition, a $500,000 note payable to the Company's parent, Danmont Corporation, was discharged by the issue of 47,619 MSN shares, at $10.50 per share. Thus, at year end, the Company had 582,214 shares outstanding, with a book value per share of $13.45, compared with $12.77 at prior year end on the 509,595 shares then outstanding.

Operations
Total consolidated sales at $25,263,009 were up fractionally over the volume achieved in the prior year, despite the loss of volume arising from the sale of Dorval Diesel on June 15, 1971. Sales from continuing operations gained from $20,854,441 to $23,384,355. Sales and earnings of Dorval Diesel to the date of sale are included in operating results for the year.

The Mussens companies had a satisfactory year, with increased sales and revenues. Branch contributions improved, particularly at Quebec City and Ottawa. A higher volume of business at Lachine branch was offset by increased expenses although its contribution was somewhat larger than its budgeted target.

Total sales at Ontario Equipment were below those of the prior year, although operating revenue was substantially unchanged. Total operating expenses were reduced, and as a consequence, net income was improved.

Colborne Acceptance Limited statements are shown separately in this report. Net income after taxes of $58,754 was up 12% over the income of the previous year.

Development work by Hovermarine Canada Limited on its Sandpiper sports hovercraft project is suspended and present efforts are confined to exploring efficient distribution methods before more work is done.

Financial
During the year under review, a total of $230,000 of the Company's debentures were purchased and lodged with the trustee for cancellation to meet sinking fund requirements. These were acquired at prices which yielded the Company a discount advantage totalling $14,550. On February 1, 1972 the Series A Debentures matured, and the $130,000 then outstanding has been fully paid.

On June 15, 1971, the Company sold Dorval Diesel Ltd. for cash. The gain realized on the sale is included in the income statement as an extraordinary item.

Your Company acquired, on October 5, 1971, 198,000 shares of The Jaeger Machine Company, an old-line manufacturer of construction equipment with its principal facilities at Columbus, Ohio and St. Thomas, Ontario, from Danmont Corporation at a cost equal to Danmont's cost. As noted above, $500,000 of this cost was satisfied by the issue of MSN shares. The balance of the transaction was paid in cash and by the assumption of a note.

In 1971, Hovermarine Canada Limited amortized $60,000 of its development costs in the Sandpiper project.

Properties
During the year the Company acquired the land and buildings at Sept Iles, Quebec which previously were leased with an option to purchase. This facility was constructed to the Company's design and specifications and is a very suitable addition to our fixed assets.

A new branch has been opened by Mussens Equipment Ltd. at Matagami, Quebec to service customers on the access road work to the James Bay project. The facility is highly portable and can be largely recovered when the project is completed.

The Company has written off the book value of its building at Churchill Falls, Labrador. This served as a branch of Mussens Equipment Ltd. during the construction phase of the Churchill Falls power development. With the completion of the earth works portion of this project, the branch has been closed, and the property is no longer useful to the Company.

Mussens Equipment's lease of property in Ottawa is expiring, and the Company is formulating plans for alternative premises.

Inventories
Consolidated inventories at year end at $12,327,682 were some 9% higher than at December 31, 1970 in spite of the sale of Dorval Diesel. During 1971, Mussens increased its activities in rentals and in rentals with option to purchase. As a result, the consolidated book value of inventory designated as rental machinery rose 50% to $6,826,915. This inventory has been valued on a conservative basis, consistent with our regular practice. The reduction in totals of parts inventories and work in progress essentially reflects the elimination of Dorval Diesel.

Industrial Relations
Agreements with the United Automobile Workers covering Mussens shop personnel at Lachine and Quebec City

branches, and office clerical personnel at Lachine terminate November 8, 1973.

The agreement with the International Association of Machinists covering the Mussens bargaining unit at the Sept Iles branch terminates November 30, 1972. Relations between the Company and the unions continue to be cordial and the Company is optimistic that they will so continue.

Corporate Planning and Development
Bucyrus-Erie Company have been proceeding with their plans to take over direct marketing of their mining equipment which constituted 10% of your Company's 1971 sales from continuing operations. Although the final date is still open, it is expected that the transition will have been completed by March 31, 1972. Considerable effort has been expended in the search for replacement of revenues that will be lost on this portion of the B-E franchise. A number of possibilities have been examined in detail, and certain negotiations are continuing.

Following the sale of Dorval Diesel, Mussens Equipment has reactivated its own diesel engine repair and testing facilities. Furthermore, Mussens now has servicing dealer franchises covering Detroit Diesel, Allis-Chalmers and Cummins diesel engines.

With the Company's acquisition of the Jaeger shares from Danmont Corporation, Danmont announced its intention to make a tender offer to the Company's minority shareholders for their MSN shares. Details of the proposed tender offer are to be furnished in a few weeks by Danmont to MSN shareholders when an appropriate prospectus has been prepared and reviewed with all requisite United States and Canadian regulatory authorities. The Jaeger shares are held as an investment. Jaeger's operations have been improving, and its management is optimistic about the continuation of this trend. Danmont and MSN are also exploring possible means of combining one or both the companies with Jaeger.

Outlook
The business of the Company was at a higher tempo at the beginning of 1972 than in 1971. Booked business improved, particularly because of the considerably larger fleet of rental equipment in customers' hands. Sales volume is running ahead of last year, and the number of inquiries and quotations is considerably above the year-ago activity.

Major construction projects under way, or on the immediate horizon, include the James Bay project and Hydro Quebec's Manic 3. Business opportunities for the Company's Quebec operations are therefore attractive. Construction contract awards in Ontario have been running at a level some 17% above the year ago rate. Against this background, your management is optimistic that it can continue to develop increased business during 1972.

Your Directors again extend their appreciation to the members of the staff at all levels for their conscientious efforts which, as always, made possible the year's results.

On behalf of the Board of Directors,

C. J. Jackson

C. J. JACKSON
President

March 22, 1972.

Ten year financial summary

MSN INDUSTRIES LTD.
and subsidiary companies (1)

	1971 December 31	1970 December 31	1969 December 31 (2)	1969*	1968*	1967*	1966*	1965*	1964*	1963*
				(Except for values per share all dollar amounts are stated in thousands)						
OPERATING RESULTS										
Sales	**25,263**	24,827	21,120	30,606	32,471	35,411	39,982	30,822	26,154	22,006
Depreciation	**65**	96	90	166	171	173	177	163	158	151
Interest on long-term debt	**233**	258	204	266	269	245	244	181	113	126
Income taxes	**628**	610	325	577	500	743	527	459	310	200
Net Profit (7)	**929**	597	324	560	461	611	645	524	370	215
Cash from operations (4)	**994**	693	414	726	632	784	822	687	528	366
SHAREHOLDERS' PARTICIPATION										
Shareholders' equity	**7,833**	6,508	5,911	5,637	5,332	5,114	4,706	4,211	3,830	3,541
Dividends declared	**204**	—	51	255	242	204	228	164	82	122
Per common share (3)										
Cash from operations (4)	**1.88**	1.36	.81	1.42	1.24	1.54	1.61	1.39	1.08	.75
Earnings (7)	**1.76**	1.17	.64	1.10	.90	1.20	1.27	1.06	.76	.44
Dividends declared	**.40**	—	.10	.50	.47½	.40	.44¾	.33	.16⅔	.25
Equity	**13.45**	12.77	11.60	11.06	10.46	10.03	9.24	8.53	7.82	7.23
No. of shares outstanding (3)	**582,214**	509,595	509,595	509,595	509,595	509,595	509,595	493,950	489,570	489,570
No. of shareholders (5)	**580**	636	655	739	814	879	809	326	326	325
BALANCE SHEET ITEMS										
Inventories	**12,328**	11,345	11,650	13,833	15,989	14,964	15,802	13,840	11,617	9,299
Working capital	**6,034**	7,103	6,272	7,305	7,261	6,612	6,342	5,325	3,747	3,932
Fixed assets (net)	**800**	1,229	1,313	1,642	1,548	1,525	1,685	1,307	1,288	1,189
Total assets	**22,238**	19,058	20,424	21,671	23,774	23,310	24,247	21,764	19,748	14,720
Long-term debt (6)	**2,988**	3,510	3,756	3,915	4,072	3,560	3,784	2,814	1,500	1,651

*Fiscal year ended March 31.

(1) The finance subsidiary is carried at cost plus accumulated earnings.

(2) December 31, 1969 results are for a nine-month period for all companies except Ontario Equipment Limited which has contributed twelve months operation to these figures.

(3) Calculated on the average number of shares outstanding during the year. Adjusted to reflect the three for one subdivision of shares, September 28, 1965.

(4) Cash from operations is net profit for year plus depreciation.

(5) Average number of shareholders during the year.

(6) Long-term debt excludes amount payable within one year.

(7) Includes extraordinary item of $348,503 in 1971 — 66 cents per share; $95,000 in 1970 — 18 cents per share.

Consolidated statement of income and retained earnings

MSN INDUSTRIES LTD.
and subsidiary companies

Year ended December 31, 1971 with comparative figures for 1970	1971	1970
Sales, including income from rentals and service and miscellaneous revenues	**$25,263,009**	24,827,118
Cost of sales, service, selling and general administrative expenses (note 11)	**23,912,311**	23,514,679
Operating income	**1,350,698**	1,312,439
Interest on long-term debt and amortization of debenture discount — net	**232,512**	257,884
Income before income taxes	**1,118,186**	1,054,555
Provision for income taxes:		
Taxes payable before reduction for losses of prior years brought forward (note 12)	**624,800**	595,650
Deferred	**3,200**	14,350
	628,000	610,000
Income before the undernoted	**490,186**	444,555
Net income of finance subsidiary	**58,754**	52,440
Minority interest in subsidiary's loss	**31,119**	5,367
Net income before extraordinary item	**580,059**	502,362
Extraordinary items (note 13)	**348,503**	95,000
Net income	**928,562**	597,362
Retained earnings at beginning of year	**6,077,770**	5,480,408
	7,006,332	6,077,770
Deduct dividends paid	**203,838**	—
Retained earnings at end of year	**$ 6,802,494**	6,077,770
Earnings per share (note 14):		
Income before extraordinary item	**$1.10**	.99
Extraordinary item	**.66**	.18
Net income	**$1.76**	1.17
Fully diluted earnings per share:		
Income before extraordinary item	**$1.10**	.94
Extraordinary item	**.66**	.18
Net income	**$1.76**	1.12

See accompanying notes to consolidated financial statements.

Consolidated balance sheet

December 31, 1971 with comparative figures for 1970	1971	1970
Assets		
Current assets:		
Cash	$ 251,793	39,331
Accounts receivable (note 7)	3,961,172	3,695,556
Notes receivable	363,270	846,876
Inventories (note 2)	12,327,682	11,345,158
Prepaid expenses	45,927	71,743
Total current assets	16,949,844	15,998,664
Non-current portion of notes receivable	—	271,267
Funds held by a trustee for debenture holders	44,338	304,873
Investments:		
Investment in finance subsidiary not consolidated (note 1)	611,335	552,581
Shares in The Jaeger Machine Company (note 3)	3,243,749	—
Total investments	3,855,084	552,581
Fixed assets (note 4)	800,242	1,229,166
Other assets:		
Excess of cost of investment in consolidated subsidiaries over book value of underlying net assets, less amortization (note 5)	291,865	327,234
Research and development costs (note 6)	169,480	233,551
Unamortized debenture discount	101,237	115,861
Sundry investments and other assets	25,692	25,035
Total other assets	588,274	701,681
	$22,237,782	19,058,232

See accompanying notes to consolidated financial statements.

On behalf of the Board:
C. J. Jackson, Director.
G. R. Duncan, Director.

	1971	1970
Liabilities and shareholders' equity		
Current liabilities:		
Bank advances (note 7)	**$ 2,442,661**	2,689,677
Accounts payable and accrued expenses	**1,343,311**	1,451,258
Accounts payable — instalment payment basis (note 7)	**6,349,888**	3,644,456
Income taxes payable	**169,929**	332,338
Other taxes payable	**205,944**	211,928
Long-term debt due within one year	**290,000**	246,320
Due to finance subsidiary	**114,458**	320,166
Total current liabilities	**10,916,191**	8,896,143
Long-term debt (note 8)	**2,987,500**	3,509,503
Note and interest payable to a shareholder due 1973	**410,000**	—
Deferred income taxes	**5,600**	27,700
Discount on note of a subsidiary purchased at less than face value	**38,480**	38,480
Minority interest in subsidiary	**47,287**	78,406
Shareholders' equity:		
Capital stock:		
Cumulative redeemable preferred shares of $50 par value per share. Authorized 100,000 shares.		
Common shares of no par value (note 9). Authorized 1,000,000 shares; issued 582,214 shares — stated value	**1,030,230**	430,230
Retained earnings per accompanying statement (note 10)	**6,802,494**	6,077,770
Total shareholders' equity	**7,832,724**	6,508,000
Contingent liabilities (note 15)		
	$22,237,782	19,058,232

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of MSN Industries Ltd. and subsidiaries as of December 31, 1971 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

Montreal, Que.
February 9, 1972.

Notes to consolidated financial statements

December 31, 1971

1. Basis of consolidation:

The consolidated financial statements include all subsidiaries except a wholly owned finance company which is carried at equity value.
On June 15, 1971 the company sold a subsidiary company, Dorval Diesel Ltd., for cash. The results of the operations of this company to the date it was sold are included in the consolidated statement of income. The sales and net income so included are $1,878,654 (1970 – $3,972,677) and $47,135 (1970 – $185,880) respectively. The gain realized on the sale of this subsidiary is shown as an extraordinary income item.

2. Inventories:

	Basis of Valuation	1971	1970
New machines	Lower of cost (specific identification) or estimated realizable values	$ 2,359,675	2,073,398
Rental machines	Estimated realizable values (which are less than cost)	6,826,915	4,652,512
Used machines	Estimated realizable values (which are less than cost)	657,050	948,152
Parts	Valued at suppliers' current list prices plus duty, less estimated dealers' discounts and allowance for obsolescence and price increases	2,290,492	3,179,355
Work in progress	Cost	193,550	491,741
		$12,327,682	11,345,158

3. Investment in common shares of The Jaeger Machine Company:

On October 5, 1971 the company purchased 198,000 common shares of The Jaeger Machine Company from its parent company, Danmont Corporation. This represents approximately 25% of the issued and outstanding shares of Jaeger. At December 31, 1971 the book value of the company's investment was approximately $2,600,000.

4. Fixed assets at cost less depreciation and amortization:

	1971	1970
Buildings	$ 558,576	805,430
Shop and office equipment	1,025,386	1,152,766
Transportation equipment	126,919	190,373
Leasehold improvements	143,492	143,492
	1,854,373	2,292,061
Less accumulated depreciation and amortization	1,266,727	1,306,061
	587,646	986,000
Land	212,596	243,166
Net fixed assets	$ 800,242	1,229,166

Except for Ontario Equipment Limited, which owns approximately 22% of the fixed assets, depreciation is being computed at the following annual rates on a straight-line basis —

Buildings	2½%
Shop and office equipment	10%
Transportation equipment	20/25%

Ontario Equipment Limited calculates depreciation at the following rates on a diminishing-balance basis —

Buildings	5%
Shop and office equipment	10/20%

Leasehold improvements are being amortized over the term of the lease.

5. Excess of cost of investments in consolidated subsidiaries over book value of underlying net assets less amortization:

This asset is being amortized on a straight-line basis over ten years beginning the year after a subsidiary was acquired.

6. Research and development costs:

Development expenditures on a sports hovercraft incurred by a subsidiary company, Hovermarine (Canada) Limited have totalled $431,736 on account of which $202,256 has been received in government research grants. The company has amortized $60,000 of its net cost in the current year.

7. Secured loans:

Bank loans are secured by a general assignment of accounts receivable, and a portion of the investment in The Jaeger Machine Company.
Accounts payable — instalment payment basis are secured by certain items included in the machine inventory.

8. Long-term debt:

Sinking fund debentures:	1971	1970
6¼% Series "A" due February 1, 1972	$ 130,000	210,000
6¾% Series "B" due December 1, 1975	340,000	400,000
6½% Series "C" due July 2, 1984	1,245,000	1,285,000
6¼% Series "D" due July 2, 1985	845,000	875,000
7½% Series "E" due September 1, 1987	670,000	690,000
	3,230,000	3,460,000
Mortgages:		
5½% due October 1, 1976	47,500	57,500
8% due November 1, 1988	—	238,323
	3,277,500	3,755,823
Less amount due within one year	290,000	246,320
	$ 2,987,500	3,509,503

Under the terms of the sinking fund debenture agreements there are general liens against all the assets of MSN Industries Ltd. and a subsidiary. In addition there are specific liens against the fixed assets of MSN Industries Ltd. as well as its investments in all of its subsidiaries and a portion of the investment in The Jaeger Machine Company.

9. Capital stock (common shares):

	Number of Shares	Consideration
Outstanding at beginning of year	509,595	$ 430,230
Issued during the year:		
Exercise of options granted to officers and key employees	25,000	100,000
Conversion of a note payable to the parent company	47,619	500,000
Outstanding at end of year	582,214	$1,030,230

10. Retained earnings:

Retained earnings in the approximate amount of $500,000 at December 31, 1971 were restricted as to the payment of dividends under the company's debenture agreements.

11. Expenses include:

	1971	1970
Depreciation and amortization of fixed assets	$ 64,926	96,086
Amortization of excess of cost of investments in subsidiaries over underlying book values	35,369	26,462
Directors' remuneration — from MSN Industries Ltd.	2,750	2,700
— from Mussens Equipment Ltd.	3,800	3,800
Officers' remuneration — from MSN Industries Ltd.	—	—
— from Mussens Equipment Ltd.	289,282	264,992
— from Ontario Equipment Limited	22,200	22,200
	$418,327	416,240
Number of directors (2 past directors)	9	9
Number of officers (8 past officers)	11	11
Number of officers who are directors (1 past officer)	3	2

12. Income taxes payable:

Will be reduced as a result of a subsidiary applying losses of prior periods against current taxable income. The resulting reduction in income taxes payable has been shown as an extraordinary item.

13. Extraordinary items:

	1971	1970
Income tax reduction resulting from the application of prior years losses against current income	$166,000	95,000
Gain on sale of a subsidiary	212,865	—
Write-off the property of a branch where operations have been discontinued	(30,362)	—
	$348,503	95,000

14 **Earnings per share** have been calculated on the average number of shares outstanding during the year.

15 **Contingent liabilities:**

The company is contingently liable for:

Customers' lien notes discounted	$2,028,112
Legal action — which in the opinion of legal counsel has been prescribed	240,000
Guarantee of finance subsidiary bank loans	800,000
	$3,068,112

16. **Contractual obligations:**

The company premises in Montreal are occupied under a long-term net lease to 1989, requiring annual rental payments of $110,686. Under the terms of this lease the company has an option to purchase the property.

17. **U.S. currency:**

Transactions originating in U.S. currency have been recorded at exchange rates in effect at the time of the transactions and liabilities in U.S. funds at December 31, 1971 have been translated to Canadian dollars at the rate of exchange at that date.

18. The company has been notified that its non-exclusive franchise agreement with Bucyrus-Erie for the distribution of the latter's mining machinery is to be discontinued. Sales of Bucyrus-Erie mining machinery accounted for approximately 10% of consolidated net sales for 1971.

Consolidated statement of source and application of funds

MSN INDUSTRIES LTD.
and subsidiary companies

Year ended December 31, 1971 with comparative figures for 1970	1971	1970
Funds provided:		
From operations:		
Net income	**$ 928,562**	597,362
Add depreciation, amortization and other items not affecting working capital	**220,340**	147,180
Deduct gain on sale of Dorval Diesel Ltd.	**(212,865)**	—
Funds provided from operations	**936,037**	744,542
Proceeds from sale of subsidiary, Dorval Diesel Ltd.	**302,865**	—
Decrease in non-current receivables	**271,267**	535,005
Reduction in funds held by a trustee	**260,535**	—
Proceeds from sale of fixed assets	**16,425**	31,732
Capital stock options exercised	**100,000**	—
Working capital at date of acquisition of subsidiaries	—	1,757
Working capital deficiency of Dorval Diesel Ltd., at date of sale	**120,866**	—
Total funds provided	**2,007,995**	1,313,036
Used as follows:		
Purchase of fixed assets	**149,403**	37,640
Dividends paid	**203,838**	—
Repayment of long-term debt	**290,000**	246,320
Increase in investment of unconsolidated finance subsidiary	**58,754**	52,440
Investment in subsidiary and affiliated companies	—	35,174
Investment in The Jaeger Machine Company (note 3)	**2,343,749**	—
Increase in research and development costs of Hovermarine (Canada) Limited	—	105,500
Minority interest portion of loss of a subsidiary	**31,119**	5,367
Total funds used	**3,076,863**	482,441
Increase (decrease) in working capital	**$ (1,068,868)**	830,595

See accompanying notes to consolidated financial statements.

Balance sheet

December 31, 1971 with comparative figures for 1970	1971	1970
Assets		
Cash	$ 15,814	79,221
Notes and accounts receivable:		
Maturing within one year	522,830	850,592
Maturing after one year	595,260	40,403
	1,118,090	890,995
Less deferred income	239,858	111,623
Net receivables	878,232	779,372
Due from affiliated companies	114,458	320,166
Rental fleet, at cost less depreciation:		
Automobiles and trucks	258,343	195,977
Less accumulated depreciation	87,788	64,244
Net rental fleet	170,555	131,733
	$1,179,059	1,310,492
Liabilities and Shareholders' Equity		
Bank loan (secured by notes and accounts receivable)	$ 550,000	732,000
Income taxes payable	6,794	15,991
Sales tax payable	406	198
Deferred income taxes	10,524	9,722
Shareholders' Equity:		
Capital stock:		
6% non-cumulative redeemable preferred shares of $10 par value per share. Authorized 16,450 shares.		
Common shares of no par value. Authorized 241,500 shares; issued 100,000 shares	100,000	100,000
Retained earnings — per accompanying statement	511,335	452,581
Total shareholders' equity	611,335	552,581
	$1,179,059	1,310,492

On behalf of the Board:
C. J. Jackson, Director.
G. R. Duncan, Director.

Statement of Income and Retained Earnings

Year ended December 31, 1971 with comparative figures for 1970	1971	1970
Income:		
Interest earned	$ 118,453	128,587
Rental revenue	84,734	62,763
	203,187	191,350
Expenditure:		
Interest on loans	29,877	46,493
Administration charge	1,000	1,000
General expenses and bank charges	6,120	4,839
Depreciation	55,889	44,003
Loss on disposal of automobiles and trucks	8,047	75
	100,933	96,410
Income before income taxes	102,254	94,940
Provision for income taxes:		
Currently payable	42,698	39,660
Deferred	802	2,840
	43,500	42,500
Net income	58,754	52,440
Retained earnings at beginning of year	452,581	400,141
Retained earnings at end of year	$ 511,335	452,581

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Colborne Acceptance Limited as of December 31, 1971 and the statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1971 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que., February 9, 1972.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

MSN INDUSTRIES LTD.

- Mussens Equipment Ltd. 100%
- Mussens Service (1969) Limited 100%
- Ontario Equipment Limited 100%
  - Ontario Equipment Northern Limited 100%
- Colborne Acceptance Limited 100%
- Hovermarine Holdings Limited 55%
  - Hovermarine (Canada) Limited 100%
- Holdus Inc. (U.S.) 45%
  - Hovermarine Inc. (U.S.) 100%
- The Jaeger Machine Company (U.S.) 24%
  - The Jaeger Machine Company of Canada Ltd. 100%

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